

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON OKHAHLAMBA MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Okhahlamba Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Okhahlamba Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Irregular expenditure**

8. As disclosed in note 32.3 to the financial statements, irregular expenditure amounting to R22,675 million (2011: R1,428 million) was incurred. This was as a result of non-compliance with the Municipal Supply Chain Management Regulations of 30 May 2005 as well as section 33(1) of the MFMA. The amount of R13,822 million of the aforementioned irregular expenditure relates to a forensic investigation in respect of previous financial years.

### **Material impairments**

9. As disclosed in note 13 to the financial statements, the municipality provided for an impairment allowance of R8,617 million on consumer debtors, as the recoverability of these amounts were considered doubtful.

### **Additional matter**

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

11. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report, as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

15. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

#### **Additional matters**

16. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, we draw attention to the following matters below.

#### **Achievement of planned targets**

17. Of the total number of 43 targets planned during the year under review, 15 targets were not achieved. This represents 34% of total planned targets that were not achieved. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.

#### **Material adjustments to annual performance report**

18. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

#### **Compliance with laws and regulations**

19. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Procurement and contract management**

20. The preference point system was not applied in all procurement of goods and services between R30 000 to R200 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulation 28(1)(a) of the Municipal Supply Chain Management Regulations of 30 May 2005.

#### **Expenditure management**

21. The accounting officer did not take effective steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
22. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section (65)(2)(e) of the MFMA.

## **Internal control**

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and compliance with laws and regulations included in this report.

## **Leadership**

24. Management did not exercise effective oversight responsibility to ensure that the municipality complies with laws and regulations as well as has and maintains an effective system of internal control over performance management. Consequently, actions were not taken to mitigate weaknesses to timeously respond to performance and compliance related risks.

## **Financial and performance management**

25. Systems and controls were not designed in a manner to prevent, detect and address risks that impact on compliance and performance reporting. In this regard, the accounting officer did not ensure that compliance with applicable laws and regulations was monitored regularly. This resulted in reportable compliance related issues and material corrections to the annual performance report.

## **OTHER REPORTS**

### **Investigations in progress**

26. A forensic investigation report released during the year under review, noted irregular expenditure relating to previous years in the amount of R13,822 million. Criminal cases have been opened with the South African Police Services in this regard.

*Auditor General*

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

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